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ABSTRACT

In 1995, Arkansas enacted two new bills that changed the way in which schools were financed. Act 916 required all school districts to levy a 25-mill tax based on an assessment ratio of 20 percent of use value on all property for maintenance and operation. The act also revised biennial appropriations for the State Department of Education, transferring several categorical funds to basic school support. Act 917 mandated the distribution of all funds on the basis of average daily membership (ADM) and prioritized certain types of school aid. This paper describes the provisions of Acts 916 and 917 and explains how school districts are to expend funds they receive. A conclusion is that Act 917 is exceedingly complex and difficult to understand. School district superintendents dislike the reform because no district collects 98 percent of its taxes. The law abandons weights and instead specifies real dollars, meaning that there must be regular reviews. The law also abandoned weights for special education, which increases the potential for litigation by parents of special-needs children. In light of these consequences, equity in Arkansas has yet to be solved. One table is included. (LMI)

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ED 399 609

Finally, Arkansas' New Finance Law

The winter of 1994-95 was most surely the winter of Arkansas' discontent. In March of 1994, the legislature had set up a commission to study school finance and develop a system that was simple and more equitable. In September of the same year, a small school district, Lake View sued the state over the finance law, claiming that it was unconstitutional. The judge handed down her decision in November agreeing with the plaintiff and giving the state two years to develop a constitutional system.

The commission made its recommendations in December but the Governor considered them to be essentially repairs to an unconstitutional system and disowned them. Instead, he came up with his own plan, the details of which changed from week-to-week. The legislature dug in its heels and an impasse followed. Finally, in April the Speaker of the House announced that no appropriation bills be acted upon until the school finance issue was settled. Compromises were made and Acts 916 and 917 were passed consisting more of the Governor's plan than he Commissions.

Act 916 is quite simple. It requires all school districts in the state to levy a 25 mill tax based on assessment ratio of 20 percent of use value on all property for maintenance and operation. Districts which did not adopt such a millage in the September 1995 school elections are subject to a penalty of a ten percent surcharge on the state income tax of all residents. All but seven districts approved the 25 mills. The only problem with this is that there is no data base to show who lives in the seven non complying districts.

The second change is found in the biennial appropriations bill for the department of education. It transfers several categorical funds to basic school support. These include transportation, teacher retirement, and the state share of

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health insurance. This has the effect of increasing per pupil expenditure on paper but in reality only provides for pass through funds which do nothing for instruction.

The third change and all succeeding ones are in Act 917. No longer are these weights for special education, vocational education, and gifted and talented. Rather all funds are distributed on the basis of ADM.

The fourth feature is a prioritization of certain types of state aid. There are four of these:

1. State Equalization Funding per Student
2. State Classroom Teacher Funding
3. Student Unit Funding
4. Student Needs Funding

No lower category will receive any funding until the one higher in priority is fully funded. If a lower category is only partially funded then districts will receive a pro-rata share.

The first of these categories, State Equalization Funding per Student is defined as (a) If category I is fully funded it is the local revenue per student in the district with the highest local revenue per student or, (b) The total available state aid plus 98% of the base millage (25) times the total assessed valuation plus 75% of the miscellaneous funds collected in the prior year divided by the state ADM

There is a difference between local revenue per student and base local revenue per student. Local revenue per student is defined as 98% of the revenue available in a local school district, whether or not collected from the levy of the base mileage (25 mills) plus 75% of the miscellaneous funds collected the previous year divided by the previous years ADM. Base local revenue includes state aid and is a statewide figure.

Seemingly to confuse the issue the law defines total state and local revenue per ADM . In each school district it is the sum of:

1. The Local School District's maintenance and operations millage times ninety-eight percent (98%) of the district's assessed valuation: and

2. The Local School District's debt service mills not required to pay off debt times ninety-eight (98%) of the district's assessed valuation: and

3. The Local School District's current expenditure mills times ninety-eight percent (98%) of the district's assessed valuation: and

4. State Equalization Funding, Student Classroom Teacher Funding, Student Unit Funding, Vocational Funding, General Facilities Funding, and Student Growth Funding available to such Local School District; and by dividing by the ADM of the Local School District.

It should be noted that this sum is not really a total. It ignores miscellaneous funds and all aid under Student Needs Funding except Vocational. This section needs reconsideration.

State Classroom Teacher Funding: This is the second priority item. It represents the state financial aid given to each school district calculated as an amount equal to one hundred twelve percent (112%) of one thousand six-hundred thirty three dollars ($1,633) per Average Daily Membership.

Student Unit Funding: the third priority. It is defined as the state financial aid provided to each district calculated by dividing the total funds available for text books and alternative education including gifted and talented education programs and restructuring and staff development by the total state ADM for the previous year and multiplying by each school districts ADM for the previous year.

Student Needs Funding: The fourth priority. It is the amount of state financial aid provided to each district from available Special Education Funding,

Vocational Education Funding, At-Risk Funding, Isolated Funding and Transportation Aid pursuant to rules and regulations promulgated by the State Board of Education.

Super Priorities

In addition to the four prioritized sources of state aid, there are five super priorities which are separately funded. They are

1. General Facilities Funding
2. Growth Facilities Funding
3. Isolated Funding
4. Student Growth Funding
5. Debt Services Funding Supplement

General Facilities Funding: The Financial aid provided to each school district based upon a facilities needs assessment justification approved by the State Department of Education. It is calculated as up to $35 multiplied by the ADM of the previous year multiplied by the difference between one minus the ratio of the local revenue per student and state equalization funding per student.

Growth Facilities Funding: This is also based upon a needs assessment justification approved by the State Department of Education. Each local school district where students growth from the previous year to the first quarter of the current year exceeds the state average growth in ADM may receive an amount up to such ADM growth in the local school district times the ratio of the total funds available for allocation divided by the states gross increase in ADM.

Isolated Funding: The state financial aid provided to qualify local districts from funds made available for the purpose and calculated as follows;

$$\frac{(350 - \text{previous year ADM})}{850} \times \text{previous year ADM}$$

times the base local revenue per student

This variety of funding presents a contradiction which must be corrected. Isolated funding appears both on a super priority and as part of priority four. A change must be made.

Student Growth Funding: The amount of state financial aid provided to each local school district not later then December of each year from funds made available for the purpose calculated as the sum of:

1. The Base Local Revenue per Student multiplied by forty hundredth (.40) times the increase, if any, in such Local School Districts ADM for the first quarter of the current year over the district ADM for the previous year: and

2. The increase, if any in such local School Districts ADM for the first quarter of the current year aver the districts ADM for the previous year multiplied by fifteen hundred dollars ($1500) per ADM.

3. Debt Service Funding Supplement: This is the state financial aid provided to qualifying school districts for the purse of reducing existing debt service burdens and increasing the amount of local revenues available for maintenance and operation expenditures and calculated as follows: for each mill required to meet the annual debt service expenditure obligation the local school district may be provided up to fifteen dollars($15) per ADM, times the difference of one minus the ratio of the districts local revenue per ADM and the State Equalization Funding per student. Beginning with the 1997-98 school year, the funding per ADM may be increased by one dollar ($1.00) each year.

Local Taxation

The law provides for four types of local taxation, three of which have limits set on them.

1. Capital Outlay and Operation Millage. This millage upon approval by the districts voters may be set without a limit.

2. Maintenance and Operation Millage. Districts are not permitted to raise their M & O millage above 25 save for Incentive Millage.

3. Incentive Millage may be an increase over 25 mills. However the amount of Incentive Revenue cannot exceed 125 percent of the Base Local Revenue per student. Should a district raise its local millage to exceed this amount the State Department of Education is empowered to deduct any amount in excess of 125 percent from the districts state aid. There is not a maximum millage but rather a maximum income.

This raises an interesting possibility. Suppose the district at the 95th percentile adjusts incentive millage and the plan is not fully funded. How could the state make up the difference? The district in question would then exceed the fifth percentile by 45% and equity would disappear.

Districts may also tax for Current expenditures. That tax must be approved by the voters and cannot exceed five percent of a districts current expenditures or three mills, whichever is less. The yield may be spent on the following:

1. Purchase of school buses;
2. Purchase of furniture or equipment to support the instructional program;
3. Purchase of computer software;
4. Renovation or repair of existing facilities; or
5. Repaying revolving loans for any purpose previously listed.

The law does not specify if this millage is part of the 25 mill base or in addition to it. The situation is causing confusion as the State Department of Education feels that it is a part of the base millage while same districts feel it is in addition. The misunderstanding must be clarified.

How Districts are to Expend Funds

Although the law may not be fully funded, districts are told by it how they will spend the funds which they do receive.

1. Local School Districts shall expend at least one thousand five hundred forty-eight dollar and fifty-nine cents ($1,548.59) per ADM for Classroom Teacher salaries.

2. Local School Districts shall expend state and local revenues on students evaluated as special education students in accordance with existing federal and state laws and Department regulations as such laws and regulations shall be amended from time to time and based on the following criteria;

a. Calculate a three-year average percentage not to exceed twelve and one-half percent (12.5%) of ADM based on the three (3) immediately preceding December 1 counts of students in special education; and

b. Multiply the three-year average percentage not to exceed twelve and one-half percent (12.5%) times the average daily membership and multiply the result times sixty-four hundredths (.64) times the Base Local Revenue Per Student.

3. Local School Districts shall expend from state and local revenues not less than the following amounts on Vocational Education students in accordance with rules and regulations promulgated by the State Board of Education: The previous year's ADM participating in vocational education programs multiplied by thirty-four hundredths (.34) times the Base Local Revenue Per Student. Participating Local School Districts shall transfer to approved vocational centers all funds that districts have previously transferred to such centers on an ADM basis.

4. Local School Districts shall expend from state and Local revenues not less than the following amounts for Alternative Education Programs in accordance with rules and regulations promulgated by the State Board of Education : The previous year's ADM participating in alternative education, up to two percent (2%) of

the previous year's ADM, multiplied by fifteen hundredths (.15) times the Base Local Revenue per Student.

5. Local School Districts shall expend from state and local revenues not less than the following amounts on gifted and talented programs in accordance with rules and regulations promulgated by the State Board of Education: The previous year's ADM participating in gifted and talented programs, up to 5 percent (5%) of the previous year's ADM multiplied by fifteen hundredths (.15) times the Base Local Revenue Per Student.

The law also provides a minimum teacher salary schedule lasting until the 2003-04 school year.

The schedule reads as follows:

Years Experience	BA Degree Salary	MA Degree Salary
0	$20,000	$23,000
1	$20,400	$23,400
2	$20,800	$23,800
3	$21,200	$24,200
4	$21,600	$24,600
5	$22,000	$25,000
6	$22,400	$25,500
7	$22,800	$25,800
8	$23,200	$26,200
9	$23,600	$26,600
10	$24,000	$27,000
11	$24,400	$27,400
12	$24,800	$27,800
13	$25,200	$27,200
14 or more	$25,600	$30,000

The only drawback to the idea is the projection to the future. Using real dollars makes the schedule subject to inflation. It would seem to have been better to index the numbers or provide weights.

There are two additional problems for this plan to overcome but no clue as to how they will be solved.

1. The district at the 95th percentile is Little Rock. Its current millage stands at 43.90 with 34 for maintenance and operation plus additional monies paid by the state as desegregation aid. Its expenditure per ADA in 1994-95 was $5,202. Because of continuing white flight its enrollment is decreasing which means expenditure per pupil will rise. Added to this its real property is being reassessed. This will also raise per pupil expenditures. The Base Local Revenues in 1996-97 is estimated at $3,900. The gap is large and will continue to increase. But Act 917 forgives any district under a court order from its provisions. Thus equity cannot be achieved until the Federal court order is vacated as the court will not permit it. If the order is vacated no clues are given as to how Little Rock's income will be cut.

2. On the November 1996 ballot there will appear a Constitutional Amendment which is a sort of companion measure to Acts 916 and 917. It would permit the state to collect the 25 M & O mills and let it redistribute them. Presumably this will be on an equal amount per ADM. But neither the amendment or the law say so. There would no longer be a 5th, 95th or 99th percentile. The law will then have to be rewritten or at least corrected.

Conclusions

The new law is exceedingly complex and difficult to understand. It is not liked by school district superintendents largely because no district collects 98% of its taxes--it goes to pay assessors and collectors. It abandoned weights and instead specifies real dollars. This means it must be regularly reviewed. The abandonment of weights for special education could easily violate vertical equity and lay the state open

to suit by the parents of handicapped children. The companion amendment may not be adopted. Then there is Little Rock. Finally, the lawsuit plaintiff is sitting in the wings prepared to go back to Chancery court. The problem of equity in Arkansas has yet to be solved.